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RUEHBUL/AMEMBASSY KABUL 8891
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C O N F I D E N T I A L SECTION 01 OF 02 ISLAMABAD 002466

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E.O. 12958: DECL: 07/22/2018

TAGS: [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [PREL](#) [PK](#)

SUBJECT: UNDER SECRETARY JEFFERY'S MEETING WITH FINANCE MINISTER
NAVEED QAMAR

Classified by Ambassador Anne Patterson, reasons 1.4 (b) and (d)

¶1. (C) Summary: In a July 18 meeting with Under Secretary for Economic, Energy and Agricultural Affairs Reuben Jeffery, Acting Minister of Finance Naveed Qamar described this year as one of the most difficult in Pakistan's economic history. He highlighted recent steps taken by the Government of Pakistan (GOP) to improve macroeconomic indicators and expressed hope that economic stability would be achieved by the end of 2008. He predicted that following GOP plans to decrease imports, reduce energy subsidies and stabilize Pakistan's foreign exchange position, overall economic health will greatly improve. Qamar lamented on the current state of Pakistan's agricultural sector and requested U.S. food assistance to target the country's most vulnerable citizens. Describing Prime Minister Gilani's upcoming visit to Washington as a platform for serious bilateral discussions, Qamar remained noncommittal on Under Secretary Jeffery's suggestion to restart Bilateral Investment Treaty (BIT) negotiations. End Summary.

¶2. (C) Under Secretary for Economic, Energy and Agricultural Affairs Reuben Jeffery and the Ambassador met with Acting Minister of Finance Naveed Qamar on July 18. Qamar, who sits on the Pakistan Peoples Party (PPP) Central Executive Committee, was named acting Minister of Finance following the May 12, 2008 departure of Pakistan Muslim League-Nawaz (PML-N) ministers from the federal cabinet.

¶3. (C) Qamar described this year as one of the worst in Pakistan's economic history. He faulted the previous government for inaction, allowing the budget deficit to soar as global energy and food prices skyrocketed. The Minister hoped that some degree of economic stability would be achieved by the end of 2008, paving the way for future reforms. "We hope to return to previous growth levels within a few years," he continued, recognizing that monetary tightening and restricted growth would be necessary in the short term to combat inflation. Qamar emphasized that one of his main goals is to stabilize Pakistan's foreign exchange reserve position by decreasing the import of non-essential luxury goods and lowering energy import levels. Timely Coalition Support Fund (CSF) reimbursements from the U.S. are key to improving Pakistan's reserve situation, he concluded.

COMMITMENT TO REFORM

¶4. (C) Under Secretary Jeffery highlighted the importance that perception plays in attracting foreign investment. The perception among investors, he observed, is that Pakistan is adrift and at risk

of a serious financial crisis. Budgetary support from bilateral and multilateral donors such as the U.S. and World Bank will not be sufficient to address Pakistan's broad economic problems. Ministry of Finance Secretary Farrukh Qayyum conceded that while negative market perceptions are hurting Pakistan, the GOP's recent economic performance has been positive. In the past three months, exports are up 23 percent, FDI has been sustained at 2006-07 levels and remittances have hit an all time high. He complained that while the GOP has taken a number of steps to sustain the economy, the World Bank and other international financial institutions have simply "sat on the fence."

15. (C) Refuting the perception that the GOP had taken no demonstrable policy steps to arrest the deterioration in macroeconomic indicators, Finance Minister Qamar emphasized that the GOP has the courage and political will to make the difficult decisions necessary to sustain the economy. The fiscal year 2008-09 budget caps the budget deficit at 4.7 percent of GDP, a figure that Qamar pledged to "defend at any cost." Despite multiple GOP agency requests for increased funding, Qamar reported that he has the Prime Minister's support to deny many of these proposals. The GOP has also undertaken the unpopular but necessary step of decreasing energy subsidies. Consumer petroleum prices have been raised three times since the PPP-led government took office in March 2008. Conceding that higher energy prices will fuel inflation, Qamar stated that raising fuel prices was necessary to reduce the GOP's energy expenditure and lower Pakistan's oil import bill. Higher interest rates will help tame inflation, currently running in the double digits.

FOOD SHORTAGES AND AGRICULTURAL REFORM

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16. (C) Turning to Pakistan's food shortages, Qamar reported that this year's wheat production is well below target. Qamar opined that while increased wheat smuggling to Afghanistan remains a challenge, mismanagement of the agricultural sector is mainly to blame for Pakistan's food shortages. "Pakistan should not be in this mess," he concluded, pointing out that while Pakistan is an agriculturally rich country, past governments have not provided adequate support and incentives to farmers. He spoke of offering incentives to farmers while bringing agricultural commodity prices in line with global levels. Qamar cited the recently-approved crop plan insurance scheme as an example of the GOP's commitment to promote growth in the agricultural sector. Expressing confidence that future wheat harvests would exceed domestic demand, Minister Qamar reported that Pakistan was in need of food assistance this year.

17. (C) Due to higher than expected wheat shortages, Pakistan will import 2.5 million metric tons of wheat to meet domestic demand. Minister Qamar estimated that after imports, Pakistan would still need an additional one million metric tons of wheat. While supportive of the World Food Program's (WFP) recent emergency appeal for an additional USD 82 million in food aid, Qamar believes that Pakistan needs closer to USD 750 million in assistance. He requested additional food aid from the U.S. in the form of a "PL-480 or similar program." Under Secretary Jeffery commented that reform of the agricultural sector is necessary to prevent future food shortages. Finance Minister Qamar concurred, describing the agricultural sector as the key to future economic growth.

U.S. ECONOMIC PRIORITIES

18. (C) The Ambassador raised the prospect of securing GOP approval for the U.S.-funded USD 20.7 million U.S. Geological Survey and Naval Research Lab joint airborne geophysical survey of Pakistan. The survey, a multi-year, bilateral cooperative effort to collect scientific information for the purposes of natural resource identification, hydrology and civil infrastructure planning, has been on hold since 2006. (Note: While civilian GOP agencies have been supportive of the proposal in the past, military and intelligence organizations have blocked the survey's approval on national security grounds despite U.S. offers to allow full military participation in the survey. End Note.) Qamar expressed support for the energy

implications of the project and promised to examine the proposal further.

¶9. (C) Under Secretary Jeffery expressed U.S. commitment to Reconstruction Opportunity Zones (ROZs) and suggested restarting negotiations on the U.S.-Pakistan Bilateral Investment Treaty (BIT) from "where we left off" in 2006. Minister Qamar reiterated that the GOP would like ROZ approval expedited. He stated that while BIT negotiations had made significant progress before faltering in March 2006, perhaps both countries would need to start negotiations from the beginning because "all the players have changed." He remained noncommittal on restarting BIT negotiations. Describing the U.S.-Pakistan relationship as "a partnership to move us through this difficult time," Finance Minister Qamar reiterated strong GOP support for Prime Minister Gilani's upcoming visit to Washington as a platform for serious discussions.

¶10. (U) This cable has been cleared by Under Secretary Jeffery.

PATTERSON